PB First Global Tax Information Booklet

No.12. The Tax Implications of Doing Business in the UAE

Our Expertise, Your Advantage

Business Pathways in the UAE
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United Arab Emirates

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Welcome!

In this 12th volume of the PB First Information Booklet, we take a look at perhaps the most talked-about market in the Middle East – the United Arab Emirates.

We outline here an overview of the tax and accounting environment in the country and the implications for foreign investors.

Inside, you will not only find details of Corporate Tax and VAT, but also Types of Company Formation, and the jurisdictions they can be based in, such as the numerous Free Zones around the country.

We hope you find the following details useful, and if you think you'd like our assistance, please drop us a line.

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1. Representative Office

Under UAE law, a representative office (rep office) *does exist*, but its activities are strictly limited. A representative office of a foreign company:

- Cannot conduct commercial activity or generate revenue inside the UAE. Its role is limited to marketing, promoting the parent company, and acting as a liaison.
- Is licensed as a “branch of a foreign company”, similar to a full branch, but without permission to trade or sell.
- May have employees, a physical office, and a bank account, but cannot enter into contracts for profit-making activities.

Taxation & Permanent Establishment (PE) Considerations

- A representative office should not constitute a permanent establishment if it performs only *auxiliary or preparatory* activities (marketing, information gathering).
- If the office begins performing revenue-generating or contract-finalizing functions, it may create UAE corporate tax exposure under the UAE Corporate Tax Law (effective from 2023).
- Because representative offices cannot earn income, profits and losses continue to be recognized only in the books of the foreign parent entity.

2. Registration for VAT Purposes Only

The UAE operates under the Federal Tax Authority (FTA) and has different thresholds and rules for foreign entities. VAT registration is fully online through the FTA e-Services portal.

VAT Registration Rules in the UAE

- Non-resident foreign companies must register for VAT if they make any taxable supplies in the UAE, regardless of turnover. There is no registration threshold for non-residents.
- VAT registration becomes mandatory when a foreign supplier sells to a non-registered customer in the UAE.
- If the UAE recipient is VAT-registered, the reverse-charge mechanism usually applies, and the foreign supplier may not need to register.

VAT Registration Thresholds (UAE-resident businesses)

- Mandatory registration: AED 375,000 annual taxable supplies.
- Voluntary registration: AED 187,500.

  These thresholds do not apply to foreign companies, as noted above.

VAT Compliance Once Registered

- A VAT-registered foreign entity must maintain proper accounting records.
- Submit monthly or quarterly VAT returns through the FTA e-Services portal.
- Charge VAT on taxable supplies (where applicable) and claim input VAT credits.

3. Other Forms of Market Entry in the UAE (for context)

UAE law typically recognizes these additional avenues:

a. Branch Office of a Foreign Company

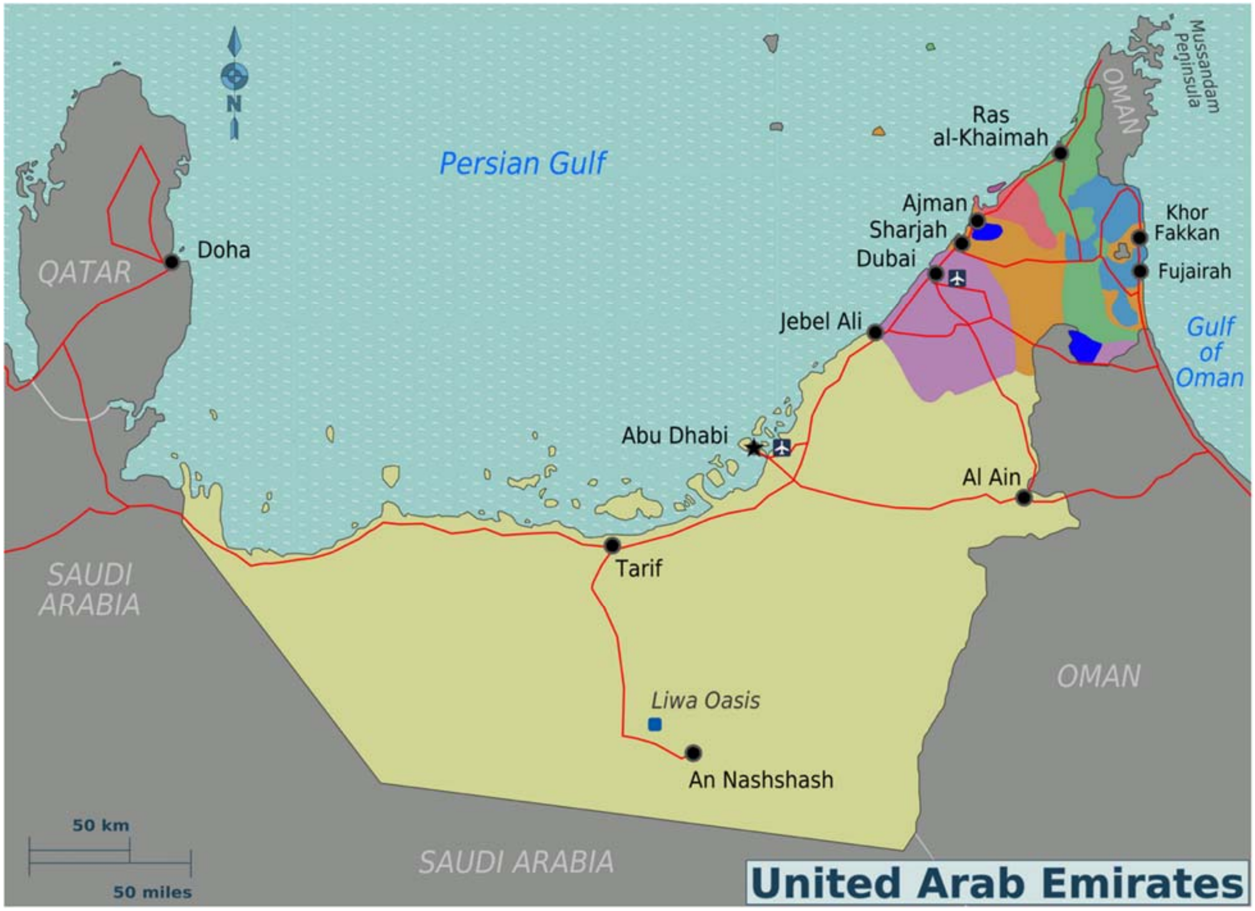
- Fully allowed to conduct commercial activities and generate revenue.
- Operates as an extension of the parent company.
- Must appoint a Local Service Agent (LSA) (administrative - no ownership).
- Common choice when the foreign company wants to operate directly in the UAE market.

b. Free Zone Company (FZCO/FZE)

- Allows 100% foreign ownership.
- Offers corporate tax incentives depending on the zone.
- Popular for holding companies, logistics, tech, and services.

c. Mainland LLC (no longer requiring a UAE national shareholder for most sectors)

- Allows broad commercial activity within the UAE.
- Corporate structure governed by the UAE Commercial Companies Law.



4. Registration as Employer Only

If a foreign company employs staff working in the UAE, it must comply with UAE labour, immigration, and payroll-related obligations, even if it does not carry out commercial activities in the UAE.

Employer Registration Requirements

Foreign employers must:

- Register with the Ministry of Human Resources & Emiratisation (MOHRE) to obtain an establishment card in order to legally hire employees in mainland UAE. This includes registering the company's details, authorised signatories, and labour file
- Register with the relevant free zone authority when employees are hired under a free-zone entity
- Handle payroll in accordance with the UAE Wage Protection System (WPS) for mainland entities, ensuring employees are paid through authorised channels.

Payroll Taxes and Social Security

- The UAE does not impose wage tax, and employees do not pay personal income tax.
- Social security contributions apply only to GCC-national employees, not to expatriates. Social security is administered through UAE pension authorities, but this applies only to GCC nationals employed by UAE-registered entities. Secondments and Cross-Border Staff

If foreign staff are seconded temporarily to the UAE:

- A secondment may create corporate tax exposure if the secondees act under the control and direction of the UAE entity, or if the arrangement creates a UAE permanent establishment.
- Proper intercompany agreements should be in placed to document cost recharges, responsibilities, and reporting lines.

Employee Tax Obligations

- Employees do not file individual income tax returns, since the UAE has no personal income tax.
- Benefits-in-kind (housing allowances, car allowances, insurance, etc.) do not create wage tax, but they may influence corporate tax deductions on the employer's side.

5. Permanent Establishment (PE) in the UAE

Under the UAE Corporate Tax Law (effective 2023), a foreign company may be considered to have a Permanent Establishment (PE) in the UAE if it has either:

A. Fixed Place of Business PE

A PE exists where a foreign entity has a fixed place of business in the UAE, such as:

- An office, branch, or other physical business location.
- A place used for management or operations.

A fixed place PE arises when business activities are carried out on a non-temporary basis in the UAE.

B. Dependent Agent PE

A PE also exists where a dependent agent in the UAE:

- Habitually concludes contracts on behalf of the foreign company, or
- Plays a principal role leading to contract conclusion.

This includes a managing director or representative acting for a foreign entity, even without a formal branch registration.

C. Activities Excluded from PE (Preparatory or Auxiliary)

Activities that are purely preparatory or auxiliary—such as marketing, gathering information, or liaison functions—do not generally create a PE.

This aligns with the treatment of representative offices, which cannot conduct commercial activities and therefore typically do not constitute a PE.

6. Subsidiary Company

6.a. Choosing a suitable vehicle

Foreign investors in the UAE commonly choose one of the following corporate forms depending on business needs, ownership requirements, regulatory environment, and location (mainland vs free zone).

Most Common and Favored Forms

1. Free Zone Company (FZ-LLC or FZE)

This is the most popular structure for foreign investors, offering:

- 100% foreign ownership.
- A straightforward incorporation process within the chosen free zone.
- Exemptions or reduced exposure to corporate tax depending on qualifying income and free-zone regulations (varies by zone).
- No requirement for a local partner.
- simplified licensing, business-friendly regulation, and fast setup timelines.

2. Mainland LLC (Limited Liability Company)

Under the updated UAE Commercial Companies Law, most activities no longer require a UAE national partner, allowing 100% foreign ownership for many sectors.

LLCs are preferred where business must be conducted onshore, such as retail, contracting, trading across the UAE, or government-related services.

3. Branch of a Foreign Company

A branch:

- Allows full commercial activity mirroring the parent company.
- Requires a Local Service Agent (LSA) for administrative purposes (no ownership interest).
- Is treated as legally the same entity as the parent.

4. Representative Office

Used when commercial activity is *not* intended.

- May only carry out marketing and liaison activities.
- Cannot trade or generate revenue.

5. Partnerships

Not commonly used by foreign investors, except in specific regulated professions (legal, audit) and typically on a restricted basis under local rules.

There is no UAE equivalent of the German “Mini-GmbH (UG)”, and there are no minimum share capital requirements for most UAE free zones or mainland LLCs, except in regulated industries (finance, banking, insurance).

Company Incorporation

7. Legal Setup of a UAE LLC or Free Zone Company

The incorporation process depends on whether the entity is on the mainland or in a free zone, but common steps include:

Pre-approval & Name Reservation

Legal advisors or incorporation agents typically perform compliance checks and assist with:

- Trade name reservation
- Activity approval
- License classification by the governing authority (free zone authority or Department of Economy)

Preparation of Constitutional Documents

The Articles of Association (AOA) or Memorandum of Association (MOA) is drafted and may require notarization for mainland entities.

Share Capital Requirements

- Many free zones require proof of capital but do not require physical deposit unless in regulated sectors.
- Mainland LLCs typically require “adequate capital”, but no statutory minimum applies.

Company Registration

- Free zone registration can take 1–3 weeks, depending on the zone.
- Mainland registration timelines vary but are generally comparable.
- Complex structures or heavily regulated activities may extend timelines.

Corporate Tax Registration

All UAE companies must register for corporate tax with the FTA within 3 months of formation or risk a 10,000 Dirham fine..

8. Opening a Bank Account

Opening a UAE corporate bank account can be challenging due to strict KYC/AML requirements. Challenges often include:

- Extensive due-diligence for foreign shareholders or complex group structures.
- Heightened scrutiny for applicants with US links (FATCA obligations).
- Enhanced review for shareholders/directors from grey- or black-listed jurisdictions.

Banks may require evidence of:

- A real operational presence (office lease, utilities, contracts).
- A resident authorized signatory or manager in the UAE (not mandated by law but common bank practice).

9. Fiscal and Trade Registration

Corporate Tax Registration

All UAE entities must register with the Federal Tax Authority (FTA) for corporate tax. Required documents include:

- License
- Constitutional documents
- Identification of owners
- Financial information

VAT Registration (if applicable)

Mandatory where:

- Taxable supplies exceed AED 375,000 (for UAE-resident entities).
- For non-resident companies, VAT registration is required immediately when making any taxable supply to non-registered recipients.

Trade License & Municipality Registration

Mainland companies must register with:

- Department of Economy & Tourism (Dubai) or equivalent in other Emirates
- Municipality where office premises are located

Many authorities require:

- A real, physical office (not a letterbox)
- A lease contract
- A manager listed on the license

Authorities may conduct inspections to prevent "paper" or "virtual" companies, similar in spirit to the German rules on non-genuine establishments.

9a. Storage of Data

Under UAE company and tax law:

- Businesses must maintain tax and accounting records for at least 5 years (longer in some regulated industries).
- Electronic records must be available in a format acceptable to the Federal Tax Authority, particularly for VAT and corporate tax audits.

There is no requirement to store data within the UAE unless imposed by a sector regulator (e.g., DIFC/ADGM, financial services). However, companies must ensure real-time access for tax authorities if requested.

9b. Audit and Publication of Financial Data

Audit Requirements
Audit obligations depend on jurisdiction:

- Free zone companies: Most major free zones (DMCC, DIFC, JAFZA, ADGM, etc.) require annual audited financial statements to be filed.
- Mainland LLCs: Required to prepare audited financial statements; submission is required in some Emirates and for certain regulated sectors.

There are no German-style size thresholds (e.g., balance sheet, turnover, employees) for mandatory audits. The obligation is generally based on the licensing authority's rules.
Publication Requirements
The UAE does not require public filing of financial statements for most companies.
However:

- Free zones (e.g., DIFC, ADGM) follow common-law regimes and may require annual filing with the Registrar.
- Financial statements are not publicly viewable in most zones.

Penalties apply for late filing, non-submission, or improper record-keeping (as per free zone and FTA rules)

10. Taxation of Corporations

Corporations that are incorporated in the UAE or have their place of effective management in the UAE are generally considered UAE tax residents and subject to UAE Corporate Tax on their worldwide income unless exempt.
Non-resident entities may also be taxed if they have a Permanent Establishment (PE) in the UAE.

10.1 Taxes on Income

Since June 2023, the UAE imposes Federal Corporate Tax at the following rates:

- 0% on taxable income up to AED 375,000.
- 9% on taxable income above AED 375,000.

Certain sectors such as oil & gas and foreign bank branches may be subject to Emirate-level taxation, but this applies only to specific regulated activities.
There is no municipal trade tax, no solidarity surcharge, and no personal income tax in the UAE.

10.2 Dividends

- Dividends received by UAE-resident companies from domestic or foreign subsidiaries are generally exempt from corporate tax, provided participation conditions are met (e.g., minimum ownership).
- Dividends paid by UAE companies are not subject to withholding tax. The UAE levies 0% withholding tax on all outbound payments, including dividends, interest, and royalties. Double Taxation Treaties (DTTs), where applicable, may further enhance relief.

10.3 Losses of the UAE Corporation

a. Loss carry-back

The UAE does not permit loss carry-back unless the Ministry issues specific provisions, which at present it has not. (Supported by general UAE Corporate Tax framework—no loss carry-back mechanism defined.)

b. Loss carry-forward

- Tax losses may be carried forward indefinitely, subject to meeting ownership and business continuity rules.
- Losses may be used to offset up to 75% of taxable income of future periods (rate set by UAE Corporate Tax Law).

c. Group relief / Tax grouping

- The UAE allows tax groups where a parent owns 95% or more of one or more subsidiaries.
- Tax groups file a single corporate tax return, with losses and profits consolidated.

The UAE's acceptance of foreign subsidiary losses is limited unless the subsidiaries form part of a UAE tax group or meet specific inclusion rules.

10.4 VAT

The UAE imposes VAT at:

- 5% standard VAT rate for most goods and services.
- Certain supplies (healthcare, education, exports) may be zero-rated or exempt depending on conditions.

VAT liability depends on the nature of the service and the place of supply.

Cross-border transactions, particularly involving non-resident suppliers, often create complex VAT implications.

Foreign companies must register for VAT immediately when making taxable supplies to non-registered UAE recipients.

Consulting a VAT specialist before commencing cross-border transactions is advisable.

10.5 Transaction and Wealth Taxes

The UAE does not impose direct transaction or wealth taxes. The UAE system includes:

- Real Estate Transfer Fees – applicable upon purchase of land or buildings, typically 2%–4%, depending on the Emirate (e.g., 4% in Dubai).
- Lease of land/buildings – subject to municipality fees but *not* a tax.
- Stamp duty – none.
- Tax on share transfers – none, except for regulated sectors or where free zones impose administrative fees.
- Wealth tax – none.
  (These reflect UAE's general taxation and fee structure as presented in doing business guidance.)

10.6 Transfer Pricing

The UAE Corporate Tax Law requires arm's-length pricing and full transfer pricing compliance for all related-party transactions.
Companies must maintain:
a. Transfer Pricing Documentation (Local File & Master File)
Multinational groups meeting the thresholds must submit Local File and Master File to the FTA.

- Required where the UAE entity is part of a multinational group that meets consolidated revenue conditions.

b. Arm's-length compliance
All related-party transactions must be priced according to OECD-aligned guidelines.
c. Penalties
Failure to maintain or submit acceptable transfer pricing documentation can lead to reassessment of profits and administrative penalties imposed by the FTA.
(UAE penalties and compliance obligations follow the FTA's corporate tax regulatory framework.)

11. Taxation of Individuals

11.1 Domicile / Tax Residency

The UAE does not impose personal income tax on individuals — whether UAE residents or expatriates. Residence may still matter for administrative or international treaty purposes, but no UAE tax liability arises on worldwide income because the UAE levies 0% personal income tax. Foreign individuals who earn employment or investment income from UAE sources are similarly not subject to UAE personal income tax. However, certain foreign nationals (e.g., U.S. citizens) may still have obligations to their home country.

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11.2 Income Tax Rates in 2026

The UAE has no income tax brackets, no progressive tax rates, and no personal income tax of any kind.

Therefore:

- 0% tax applies to salaries, wages, bonuses, allowances, investment income, capital gains, rental income, and freelance/self-employment income (unless earned through an incorporated and taxable UAE business).
- There is no solidarity surcharge, no church tax, and no personal exemptions, because individuals do not file income tax returns.

A taxable-income table is not applicable, as effective individual UAE income tax is 0% at all income levels.

11.3 Payroll Taxes

In the UAE, employers do not withhold personal income tax, since none exists.
However, payroll-related obligations remain:

- WPS (Wage Protection System) compliance is mandatory for most private-sector employers to ensure timely salary payments.
- No payroll tax is calculated or deducted from employee salaries.

Expatriates may still have home-country reporting obligations, but these are not part of UAE payroll rules.

11.4 Social Security Contributions

Social security contributions apply only to UAE nationals and other GCC nationals:

- UAE nationals contribute 5% of gross salary.
- Employers contribute 12.5% on behalf of UAE nationals.
- An additional 2.5% is contributed by the UAE government.
- In Abu Dhabi, higher combined rates apply (total 26%).

Expatriates (non-GCC nationals) pay no social security contributions in the UAE.
Additional schemes:

- Unemployment Insurance Scheme (mandatory for most employees):
  AED 5 per month (salaries ≤ AED 16,000) or AED 10 per month (salaries > AED 16,000).
  The contribution is paid by the employee.
- DEWS savings plan applies in DIFC instead of traditional end-of-service gratuity.
  Employers contribute 5.83%–8.33% depending on length of service.

11.5 Inheritance / Gift Tax

There is no inheritance tax and no gift tax in the UAE.

Assets may pass without taxation, though Sharia-based succession rules can apply for Muslim residents unless alternative arrangements (such as DIFC/ADGM wills) are made.

We specialise in difficult cross-border tax issues.

Contact us for help:

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